Administrative Simplification Working Group
Second Interim Report
March 12, 2001

The Administrative Simplification Working Group offers this second interim report to the State Healthcare Task Force. Although we have not finished our deliberations, there is no reason to delay our presentation of these two recommendations to the Task Force. If adopted, these recommendations can be implemented immediately and enhance the prospects for administrative simplification in the Commonwealth.

Recommendation #1: Integration of HIPAA Compliance and Administrative Simplification

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") was signed into law on August 21, 1996, and represents part of the legal framework within which healthcare providers and payers and employers will exchange administrative and patient information for the coming decades. (A summary of the law is provided in Appendix A.) The Working Group has given a great deal of thought to how to integrate the activities that will be undertaken by providers and insurers under HIPAA with a broader vision of administration simplification. Under HIPAA, each institution will be investing in hardware, software, and human resources to comply with an exceptionally complex set of federal regulations. Those regulations will govern the format to be used in the collection and transmittal of hundreds of types of administrative and patient medical information, and they must meet exceptionally detailed standards for patient confidentiality and security. HIPAA compliance has been termed the "new Y2K", in terms of the level of effort and expense that is likely to be incurred by institutions in complying with it.

The Working Group believes that the time is ripe to design a statewide strategy for HIPAA compliance that serves as the framework for implementation of administrative simplification. In our discussions with providers and payers, we have been struck by the degree to which many parties thus far are independently pursuing compliance with HIPAA. We have also been sympathetic to the high level of costs such independently-pursued compliance will cause. We believe that the Commonwealth has a timely opportunity to help draw these parties together and devise a HIPAA compliance strategy that satisfies the requirements of federal law but also enhances the future ability of Massachusetts-based entities to transmit accurate and timely administrative information. There is also a possibility that such involvement might lower the cost of compliance to all parties.

The Commonwealth will shortly create a HIPAA program management office within the Executive Office of Health and Human Services to ensure that the state agencies' approaches to this law are coordinated. State funding will be required for this purpose, and federal law permits a 90:10 match for certain administrative costs associated with achieving compliance for Medicaid. The Working Group suggests that these

initiatives should be tied to the broader response of health care providers and payers in the state.

The vehicle for the largest group of parties working on this problem is the Massachusetts Health Data Consortium. MHDC is a non-profit organization which comprises several dozen providers and payers in the state and has an active board, CIO Forum, and Operations Forum. It has proven its effectiveness in encouraging and enhancing administrative simplification through NEHEN, the New England Healthcare Electronic Data Interchange Network. (See Appendix B for a more thorough description of MHDC and NEHEN.) We believe that the MHDC should be designated as the Commonwealth's agent to establish a vehicle to coordinate HIPAA activities in the state. The Commonwealth, in its various roles, is one of the state's largest employers, providers, and payers, and so it has a legitimate and important role in this effort. Thus, the Commonwealth's HIPAA program office should offer its involvement and expertise in this forum. To the extent that state funds can leverage federal funds to help establish administrative standards for HIPAA compliance, those standards and procedures might then be passed along to other players in the marketplace at a lower cost.

Accordingly, our recommendation is to request MHDC to take on this role, to establish timetables and milestones for merging compliance of HIPAA with relevant administrative simplification procedures, and to report regularly on its performance and that of its members in meeting those milestones.

Recommendation #2: Review Panel

The potential for improvements in information flow, in the provision of healthcare itself, and in cost savings associated with administrative simplification appear to be large. Most people agree that it is in the interest of the Commonwealth to ensure that steps are taken to ensure these benefits inure to the people of the state. The working group believes that an appropriate role for the state is to receive and share periodic reports on the progress being made by healthcare-related parties in achieving these goals. However, it is also fair to say that it is premature to establish specific standards by which administrative simplification can be judged. Likewise, we have an interest in promulgating information on the best practices that emerge in the industry to accomplish these results, but we do not yet know when those best practices will ripen.

We propose, therefore, that a high level review body be established to conduct periodic public forum discussions at which the state's healthcare organizations would give reports on their achievements regarding administrative simplification. The review panel would specify the particular metrics on which it would like to receive reports, but it would also welcome presentations by individual providers and payers (or groups of them) about innovative best practices in this field. Our hope would be that these progress reports and presentations would be newsworthy to the print and electronic media in the state and that positive or adverse publicity would serve to further enhance organizations' activities in this area.

We suggest a relatively small review body, the Healthcare Efficiency Review Panel. It could be co-chaired by the Secretaries of EOHHS and Administration and Finance, with additional membership including the Chairs of the Senate and House Joint Committee on Healthcare, a representative of an employers' group, a representative of labor, a specialist in web-based computer information systems, and an academician specializing in the healthcare field. While the group would establish its own meeting schedule, we suggest that it meet quarterly for at least the first year to establish a sense of momentum and pressure regarding these issues.

Appendix A

The Health Insurance Portability and Accountability Act of 1996: A Summary for Purposes of Administrative Simplification

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") was enacted for several purposes, including:

- to improve the portability and continuity of health insurance coverage in the group and individual markets;
- to combat waste, fraud and abuse in health insurance and health care delivery; and
- to simplify the administration of health insurance.

With respect to its administrative simplification provisions, the purpose of HIPAA is to improve the efficiency and effectiveness of the health care system by encouraging the development of a health information system through the establishment of standards and requirements for the electronic transmission of certain health information.

Specifically, HIPAA requires the **establishment of national standards** for certain **electronic transactions** that occur regularly in the health care arena and for certain **data elements** within those transactions, for **national provider, employer and patient identifiers**, and for **security** and **privacy** of information. Final regulations adopting standards for most of the required electronic transactions were published on August 17, 2000. Entities required to comply with the standards must do so by October 16, 2002 (except that "small health plans" have until October 16, 2003). Penalties for failure to comply include fines of up to $100 per person per violation, up to a maximum of $25,000 per person for each provision in a single year. The standard transactions involve information that is routinely exchanged between and among employers, health plans and health care providers.

Covered Transactions

HIPAA requires that federal standards be adopted for the following transactions:

1. Health care claim or encounter
2. Enrollment and disenrollment in a health plan
3. Eligibility for a health plan
4. Claim payment and remittance advice
5. Premium payments
6. Health care claim status inquiry
7. Referral certification and authorization
8. Health care claim attachment
9. First report of injury

The August, 2000 regulations adopted standards for the first eight of these transactions, as well as standards for data code sets (e.g., code sets used to describe procedures or

diagnoses, such as the International Classification of Diseases, 9th Edition, Clinical Modification or ICD-9-CM).

Covered Entities

Entities that must comply with the standards, or "covered entities," are health plans, health care clearinghouses (organizations that "translate" between HIPAA-standard data and non-HIPAA standard data), and health care providers that transmit any health information electronically in connection with any of the covered transactions. Put another way, health plans must be "HIPAA-compliant" and providers that transmit information electronically must do so in a manner that is HIPAA-compliant, but HIPAA does not require providers to transmit data electronically. The standards for electronic transactions apply whether the data is transmitted using the Internet, leased lines, dial-up lines, private networks, or magnetic tape or compact disk exchanges.

National Identifiers

HIPAA called for the Secretary of HHS to adopt standards for providing a unique health identifier for each individual, employer, health plan and health care provider. Regulations adopting some of these identifiers have been issued. However, many HIPAA observers believe that it is unlikely the Secretary will adopt a standard for individual health identifiers, primarily because of concerns about individual privacy and about the logistics of maintaining a national system of personal identifiers.

Privacy and Security

Regulations articulating standards for security have been proposed but not yet finalized. Final regulations governing privacy under HIPAA were issued in the waning days of the Clinton Administration, and the Bush Administration has allowed additional time for comments to be submitted.

Costs and Benefits

Over time, the standardization of codes and information transactions mandated by HIPAA should result in substantial savings by reducing handling and processing time, eliminating the need for multiple formats for different providers and payers, eliminating the need for paper transactions, and increasing the accuracy and speediness of transactions through using electronic communications. However, the regulations are complex and difficult to implement, and many covered entities will need to invest substantial amounts of money in upgrading their systems in order to comply. Many have compared the effort to that needed to comply with Y2K readiness, and some have suggested HIPAA compliance will be significantly more costly.

Appendix B

The Massachusetts Health Data Consortium

The Massachusetts Health Data Consortium, located in Waltham, Massachusetts, is a non-profit, private 501(c)(3) corporation established in 1978 for the purpose of developing, collecting, analyzing and disseminating health care information to improve the health and healthcare of the region.

The Consortium brings together New England's key healthcare organizations for collaborative projects, such as the *Affiliated Health Information Networks of New England* Project, and educational conferences aimed at increasing public awareness and understanding of the health care environment.

In addition, the Consortium provides high quality data products and research to the New England healthcare community, which support health policy development, technology planning and implementation, and improved decision making in the allocation and financing of healthcare.

Any individual, healthcare provider, payer, association, government organization, or information technology company may join the Consortium.

For more information, please visit mahealthdata.org.

New England Healthcare EDI Network

The New England Healthcare EDI Network (NEHEN) is a collaborative effort by several New England health care organizations to develop and use a secure electronic data interchange system to exchange HIPAA-compliant transactions. While HIPAA was the compelling event behind the formation of NEHEN, the Massachusetts Health Data Consortium deserves credit for its role in generating community wide interest in healthcare EDI as part if its Affiliated Health Information Networks of New England (AHINNE) project. The AHINNE project is a collaboration of leading health care providers, healthplans, employers and information technology companies working to improve New England's health care information infrastructure.

NEHEN's charter members included three of New England's largest integrated healthcare delivery networks and two of the region's pre-eminent health plans. NEHEN's current members include Boston Medical Center, CareGroup Healthcare System, Children's Hospital Boston, Lifespan, Partners HealthCare System, UMassMemorial Healthcare, Harvard Pilgrim Health Care, Neighborhood Health Plan, and Tufts Health Plan. Affiliates include athenahealth.com and NaviMedix. Any provider, health plan or other payer is welcome to join NEHEN. Agents providing service to providers or health plans are encouraged to join and must be sponsored by a NEHEN Manager.

For more information about NEHEN, please visit www.nehen.org.